

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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2010 OCT 21 P 12:38

TO: THE COMMISSION

OCT 21 2010

FROM: Utilities Division

DOCKETED BY

AZ CORP COMMISSION
DOCKET CONTROL

DATE: October 21, 2010

RE: ARIZONA PUBLIC SERVICE COMPANY – APPLICATION FOR APPROVAL OF AN INCREASE IN THE 2010 ENERGY EFFICIENCY PLAN FUNDS (DOCKET NO. E-01345A-08-0172)

On September 27, 2010, Arizona Public Service Company (“APS” or “the Company”) filed an application for approval of an increase in the 2010 Energy Efficiency Implementation Plan Funds. An increase of \$3,000,000 was requested for the Residential Existing Homes Heating, Ventilation and Air Conditioning Efficiency (“R-HVAC”) program, in order to accommodate unexpectedly high levels of customer demand, and to avoid suspension of the program once the current budget is exhausted in mid-November 2010.

The R-HVAC program consists of: (i) Residential HVAC, including air conditioning rebates and Duct Test and Repair; and (ii) Home Performance with Energy Star (“HPwES”). Residential HVAC promotes energy efficient equipment and a Quality Installation measure designed to maximize HVAC operating efficiency. HPwES¹ promotes a whole house approach to energy efficiency, beginning with a \$99 comprehensive home energy assessment. HPwES identifies potential energy efficiency measures, such as air sealing, insulation, shade screens, faucet aerators, and low flow showerheads, and provides homeowners with information on APS energy efficiency rebates and access to financing.

Transfers Between Programs

In addition to the \$3,000,000 requested in the application, the Company plans to transfer \$846,000 to the R-HVAC program from the Residential New Construction and Residential Refrigerator Recycling programs. Both programs are now projected to spend well below their originally projected budgets², and Decision No. 68648 includes a provision to allow funding transfers from less-active to more-active APS Residential programs.

Decision No. 68648 states that APS should be limited to transferring a maximum of 25 percent of budgeted funds among “the New Construction Program, the HVAC Efficiency Program, and the Consumer Products Program per calendar year.” The Refrigerator Recycling program was not in existence at the time of Decision No. 68468, and so is not listed as one of the

¹ The HPwES program component was approved by the Commission in Decision No. 71460, on January 26, 2010.

² The Refrigerator Recycling program is still ramping up and participation in the New Construction program is lower than projected due to conditions in the Arizona housing market.

Residential programs allowed to transfer budgeted funds. For purposes of clarification, and to facilitate the appropriate allocation of resources, Staff recommends that APS be allowed to transfer budgeted funds among all Residential programs, with the exception of the Low-Income program. Staff also recommends that the amount transferred out of any individual program not exceed 25 percent of that program's budgeted funds per calendar year.

Proposed Increase in 2010 Energy Efficiency Implementation Plan Funds

Budget. The original and proposed budgets for the R-HVAC program are listed below, by spending category, in Table 1. Table 2 provides the percentage of the proposed budget allocated to each spending category:

Table 1

| Category | Original Budget | Proposed Budget | Difference |
|-------------------------------|-----------------|--------------------------|-------------|
| Rebates and Incentives | \$3,519,000 | \$6,875,000 | \$3,356,000 |
| Training/Technical Assistance | \$88,000 | \$220,000 | \$132,000 |
| Consumer Education | \$279,000 | \$229,000 | \$(50,000) |
| Program Implementation | \$1,200,000 | \$1,808,000 | \$608,000 |
| Program Marketing | \$598,000 | \$473,000 | \$(125,000) |
| Planning and Administration | \$223,000 | \$102,000 | \$(121,000) |
| Total | \$5,907,000 | \$9,707,000 ³ | \$3,800,000 |

Table 2

| Category | Proposed Budget | Percentage of Total Proposed Budget |
|-------------------------------|--------------------------|-------------------------------------|
| Rebates and Incentives | \$6,875,000 | 70.8% |
| Training/Technical Assistance | \$220,000 | 2.3% |
| Consumer Education | \$229,000 | 2.4% |
| Program Implementation | \$1,808,000 | 18.6% |
| Program Marketing | \$473,000 | 4.9% |
| Planning and Administration | \$102,000 | 1.0% |
| Total | \$9,707,000 ⁴ | 100% |

³ Includes both the proposed \$3,000,000 increase in funding and the \$846,000 transfer from other Residential programs.

⁴ Includes both the proposed \$3,000,000 increase in funding and the \$846,000 transfer from other Residential programs.

Proposed Changes. The proposed increase in the R-HVAC program budget is driven by participation levels that have been well above projected levels. APS planned for 8,000 Air Conditioning and Duct Test/Repair rebates, but now estimates that 15,000 will be paid; 1,000 energy assessments were planned for, but over 1,700 are likely to be completed during the current year.

With respect to individual budget categories: The largest dollar increases have been proposed for Incentives and Implementation, categories heavily impacted by high participation. Training and Technical Assistance costs are also projected to be higher, since more contractors are taking part in the training than originally anticipated, but this still represents only 2.3 percent of the proposed budget. Some program costs have also decreased. Consumer Education and Marketing costs are lower because customer awareness is good and participation is high, lessening the need for spending in these areas. Planning and Administration costs are lower because overhead has been spread over more programs than in 2009, making per participant program costs lower than expected.

Impact of Program Suspension. In its application, the Company indicates that it will be forced to suspend the R-HVAC program in mid-November unless the Commission approves an increase to the budget. APS describes the R-HVAC program as "a critical component of the Company's DSM portfolio and . . . one of the most popular energy efficiency programs APS offers to its customers." The Company states that suspension of the program would "cripple the Company's efforts to meet the 2010 MWh savings goals," estimating that 1,500 MWh in net annual savings for 2010 would be lost if the program is suspended in November and December. In addition, according to the application, a suspension would also confuse APS customers and have a negative impact on a program that has experienced significant improvement in participation.

Another consideration cited by APS is that the HPwES measure is a key component of ARRA⁵-funded home retrofit programs for several Arizona cities, and that suspension would impact the ability of these cities to utilize ARRA funding. The City of Phoenix "Energize Phoenix" program and a City of Avondale ARRA-funded program are cited as city programs that could be impacted by a suspension.

Bill Impacts and Impact to the Performance Incentive. The proposed \$3,000,000 increase would result in a bill impact, from the higher budget, of \$0.127 per month, or \$1.53 per year, based on average monthly Residential usage. An additional potential impact would be an increase in the Performance Incentive, which would, in turn, increase the bill impact. Under the Settlement Agreement with APS, the Performance Incentive is based on the Company's achievements relative to its Energy Efficiency Goals, with that amount capped by set percentages of the program costs. The level of energy savings projected for 2010 means that, in effect, the cap determines the amount of the Performance Incentive. The Company estimates that increasing spending for the R-HVAC program by the requested \$3,000,000 would result in a

⁵ American Recovery and Reinvestment Act.

\$420,000 increase in the Performance Incentive, potentially bringing the total monthly bill impact to \$0.145, and the annual impact to \$1.74, based on average monthly Residential usage.⁶


Timing. APS states that there would be no bill impact from the proposed increase until 2012, when DSM over- or under-collections for 2010 would be trued-up.

Cost-Effectiveness. The measures that are a part of the R-HVAC program were previously reviewed and determined to be cost-effective. It should be noted, however, that the proposed budget changes would significantly decrease per-unit program costs, likely resulting in an improved benefit-cost ratio for the program.

Analysis and Recommendations. Based on spending through August 2010, Staff estimates that the original \$5,907,000 budget is likely to be exhausted during October 2010, even taking into account transfers from other Residential programs. Staff recommends that the Commission approve the requested increase because suspension of the R-HVAC program due to lack of funds is likely to depress program participation and significantly limit energy savings.

Summary of Recommendations

- Staff recommends that APS be allowed to transfer budgeted funds among all Residential programs, with the exception of the Low-Income program.
- Staff recommends that the amount transferred out of any individual program budget not exceed 25 percent of that program's budgeted funds per calendar year.
- Staff recommends that the increase to the Residential Existing Home Heating, Ventilation and Air Conditioning program component of the 2010 Energy Efficiency Implementation Plan Funds be approved.



Steven M. Olea
Director
Utilities Division

SMO:JMK:lhj\JFW

ORIGINATOR: Julie McNeely-Kirwan

⁶ This estimate is based on the assumption that energy savings and program spending conform to projections.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
 Chairman

3 GARY PIERCE
 Commissioner

4 PAUL NEWMAN
 Commissioner

5 SANDRA D. KENNEDY
 Commissioner

6 BOB STUMP
 Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF ARIZONA PUBLIC SERVICE)
10 COMPANY FOR APPROVAL OF AN)
11 INCREASE IN THE 2010 ENERGY)
12 EFFICIENCY PLAN FUNDS)
13 _____)

DOCKET NO. E-01345A-08-0172

DECISION NO. _____

ORDER

13 Open Meeting
14 November 4, 2010
15 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Arizona Public Service Company ("APS" or "the Company") provides electric
18 service within portions of Arizona, pursuant to authority granted by the Arizona Corporation
19 Commission ("Commission").

20 2. APS provides service in the counties of Apache, Cochise, Coconino, Gila, La Paz,
21 Maricopa, Navajo, Pima, Pinal, Yavapai and Yuma. The Company services over 1.1 million
22 customers in Arizona, including approximately 984,000 Residential and 120,000 Commercial
23 customers.

24 3. On September 27, 2010, APS filed an application for approval of an increase in the
25 2010 Energy Efficiency Implementation Plan Funds. An increase of \$3,000,000 was requested for
26 the Residential Existing Homes Heating, Ventilation and Air Conditioning Efficiency ("R-
27 HVAC") program, in order to accommodate unexpectedly high levels of customer demand, and to
28 avoid suspension of the program once the current budget is exhausted in mid-November 2010.

Decision No. _____

1 4. The R-HVAC program consists of: (i) Residential HVAC, including air
2 conditioning rebates and Duct Test and Repair; and (ii) Home Performance with Energy Star
3 (“HPwES”). Residential HVAC promotes energy efficient equipment and a Quality Installation
4 measure designed to maximize HVAC operating efficiency. HPwES¹ promotes a whole house
5 approach to energy efficiency, beginning with a \$99 comprehensive home energy assessment.
6 HPwES identifies potential energy efficiency measures, such as air sealing, insulation, shade
7 screens, faucet aerators, and low flow showerheads, and provides homeowners with information
8 on APS energy efficiency rebates and access to financing.

9 Transfers Between Programs

10 5. In addition to the \$3,000,000 requested in the application, the Company plans to
11 transfer \$846,000 to the R-HVAC program from the Residential New Construction and Residential
12 Refrigerator Recycling programs. Both programs are now projected to spend well below their
13 originally projected budgets², and Decision No. 68648 includes a provision to allow funding
14 transfers from less-active to more-active APS Residential programs.

15 6. Decision No. 68648 states that APS should be limited to transferring a maximum of
16 25 percent of budgeted funds among “the New Construction Program, the HVAC Efficiency
17 Program, and the Consumer Products Program per calendar year.” The Refrigerator Recycling
18 program was not in existence at the time of Decision No. 68468, and so is not listed as one of the
19 Residential programs allowed to transfer budgeted funds. For purposes of clarification, and to
20 facilitate the appropriate allocation of resources, Staff has recommended that APS be allowed to
21 transfer budgeted funds among all Residential programs, with the exception of the Low-Income
22 program. Staff has also recommended that the amount transferred out of any individual program
23 not exceed 25 percent of that program’s budgeted funds per calendar year.

24 ...

25 ...

26 Proposed Increase in 2010 Energy Efficiency Implementation Plan Funds

27 ¹ The HPwES program component was approved by the Commission in Decision No. 71460, on January 26, 2010.

28 ² The Refrigerator Recycling program is still ramping up and participation in the New Construction program is lower than projected due to conditions in the Arizona housing market.

Proposed Increase in 2010 Energy Efficiency Implementation Plan Funds

7. Budget. The original and proposed budgets for the R-HVAC program are listed below, by spending category, in Table 1. Table 2 provides the percentage of the proposed budget allocated to each spending category:

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| Program Marketing | \$473,000 | 4.9% |
| Planning and Administration | \$102,000 | 1.0% |
| Total | \$9,707,000 ⁴ | 100% |

8. Proposed Changes. The proposed increase in the R-HVAC program budget is driven by participation levels that have been well above projected levels. APS planned for 8,000 Air Conditioning and Duct Test/Repair rebates, but now estimates that 15,000 will be paid; 1,000 energy assessments were planned for, but over 1,700 are likely to be completed during the current year.

³ Includes both the proposed \$3,000,000 increase in funding and the \$846,000 transfer from other Residential programs.

⁴ Includes both the proposed \$3,000,000 increase in funding and the \$846,000 transfer from other Residential programs.

1 9. With respect to individual budget categories: The largest dollar increases have been
2 proposed for Incentives and Implementation, categories heavily impacted by high participation.
3 Training and Technical Assistance costs are also projected to be higher, since more contractors are
4 taking part in the training than originally anticipated, but this still represents only 2.3 percent of the
5 proposed budget. Some program costs have also decreased. Consumer Education and Marketing
6 costs are lower because customer awareness is good and participation is high, lessening the need
7 for spending in these areas. Planning and Administration costs are lower because overhead has
8 been spread over more programs than in 2009, making per participant program costs lower than
9 expected.

10 10. Impact of Program Suspension. In its application, the Company indicates that it
11 will be forced to suspend the R-HVAC program in mid-November unless the Commission
12 approves an increase to the budget. APS describes the R-HVAC program as "a critical component
13 of the Company's DSM portfolio and . . . one of the most popular energy efficiency programs APS
14 offers to its customers." The Company states that suspension of the program would "cripple the
15 Company's efforts to meet the 2010 MWh savings goals," estimating that 1,500 MWh in net
16 annual savings for 2010 would be lost if the program is suspended in November and December.
17 In addition, according to the application, a suspension would also confuse APS customers and
18 have a negative impact on a program that has experienced significant improvement in
19 participation.

20 11. Another consideration cited by APS is that the HPwES measure is a key component
21 of ARRA⁵-funded home retrofit programs for several Arizona cities, and that suspension would
22 impact the ability of these cities to utilize ARRA funding. The City of Phoenix "Energize
23 Phoenix" program and a City of Avondale ARRA-funded program are cited as examples of city
24 programs that could be impacted by a suspension.

25 12. Bill Impacts and Impact to the Performance Incentive. The proposed \$3,000,000
26 increase would result in a bill impact, from the higher budget, of \$0.127 per month, or \$1.53 per
27

28 ⁵ American Recovery and Reinvestment Act.

1 year, based on average monthly Residential usage. An additional potential impact would be an
2 increase in the Performance Incentive, which would, in turn, increase the bill impact. Under the
3 Settlement Agreement with APS, the Performance Incentive is based on the Company's
4 achievements relative to its Energy Efficiency Goals, with that amount capped by set percentages
5 of the program costs. The level of energy savings projected for 2010 means that, in effect, the cap
6 determines the amount of the Performance Incentive. The Company estimates that increasing
7 spending for the R-HVAC program by the requested \$3,000,000 would result in a \$420,000
8 increase in the Performance Incentive, potentially bringing the total monthly bill impact to \$0.145,
9 and the annual impact to \$1.74, based on average monthly Residential usage.⁶

10 13. Timing. APS states that there would be no bill impact from the proposed increase
11 until 2012, when DSM over- or under-collections for 2010 would be trued-up.

12 14. Cost-Effectiveness. The measures that are a part of the R-HVAC program were
13 previously reviewed and determined to be cost-effective. It should be noted, however, that the
14 proposed budget changes would significantly decrease per-unit program costs, likely resulting in
15 an improved benefit-cost ratio for the program.

16 15. Analysis and Recommendations. Based on spending through August 2010, Staff
17 has estimated that the original \$5,907,000 budget is likely to be exhausted during October 2010,
18 even taking into account transfers from other Residential programs. Staff has recommended that
19 the Commission approve the requested increase because suspension of the R-HVAC program due
20 to lack of funds is likely to depress program participation and significantly limit energy savings.

21 Summary of Recommendations

- 22 • Staff has recommended that APS be allowed to transfer budgeted funds among all
23 Residential programs, with the exception of the Low-Income program.
- 24 • Staff has recommended that the amount transferred out of any individual program
25 budget not exceed 25 percent of that program's budgeted funds per calendar year.
- 26 • Staff has recommended that the increase to the Residential Existing Home Heating,
27 Ventilation and Air Conditioning program component of the 2010 Energy Efficiency
28 Implementation Plan Funds be approved.

⁶ This estimate is based on the assumption that energy savings and program spending conform to projections.

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1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the petition.

3. The Commission, having reviewed the application and Staff's Memorandum dated April 21, 2010, concludes that it is in the public interest to approve the increase in funds for the Residential Existing Homes Heating, Ventilation and Air Conditioning Efficiency program as part of the 2010 Energy Efficiency Implementation Plan.

ORDER

IT IS THEREFORE ORDERED that the funding increase for the Arizona Public Service any Residential Existing Homes Heating, Ventilation and Air Conditioning Efficiency component of the 2010 Energy Efficiency Implementation Plan be approved, as discussed

IT IS FURTHER ORDERED that Arizona Public Service Company be allowed to transfer
ed funds among all Residential programs, with the exception of the Low-Income program.

1 IT IS FURTHER ORDERED that the amount transferred out of any individual program
2 budget not exceed 25 percent of that program's budgeted funds per calendar year.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4
5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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7 _____
CHAIRMAN

COMMISSIONER

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9
10 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

11
12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto, set my hand and caused the official seal of
this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2010.

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17 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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19 DISSENT: _____

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21 DISSENT: _____

22 SMO:JMK:lhvJFW
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2 DOCKET NO. E-01345A-08-0172

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